



# Property Tax Reform: How Do We Fix a Broken System?

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# Goals of Property Tax Reform

## ■ Affordability

- We must not impose taxes that force people to sell their homes

## ■ Fairness

- Burdens of property taxes should be imposed equitably (between people and corporations, from one township to another)
- Fair balance among different kinds of taxes

## ■ Accountability

- Citizens need to know when tax decisions are made and whom to hold responsible for those decisions.

# Options for Reform

- **Advance America:** Eliminate property taxes by cutting spending and increasing corporate, income and sales taxes.
- **Orentlicher Plan:** Substantially reduce property taxes (62% cut) by cutting spending and increasing corporate, income and/or sales taxes.
- **Equalization of Tax Rates:** Substantially reduce property taxes as above and also establish statewide property tax rate.

# Advance America Proposal to Eliminate Property Taxes

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- Estimated property taxes in 2012—6.6 billion
    - Savings from spending cap—1.5 billion
      - Limit budget growth to 2.7% instead of 4.3%
    - Corporate tax increase—500 million
    - 2% Sales tax increase—2.5 billion
    - 1% Income tax increase—1.6 billion
    - Administrative savings—250 million
    - Interest from spending cap fund—300 million
  - Takes effect in 2012
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# Ways to Eliminate Property Taxes Now

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- Raise income tax from 3.4% to 9.0%
- Raise sales tax from 6% to 13.2%
- Raise income tax from 3.4% to 6% and sales tax from 6% to 9.5%
- Raise sales tax from 6% to 11.1% and tax services
- Raise income tax from 3.4% to 6%, raise sales tax from 6% to 8%, and tax services.

# Orentlicher Plan

- Cut property taxes for homeowners and renters 62%
- ~~Property taxes go down by \$2.3 billion and total taxes go down by \$700 million~~
- Greater fiscal restraint
  - Reduce spending \$400 million by absorbing child welfare and other local costs into state budget
  - Transfer another \$900 million in local school costs to the state budget, covered by 1% increase in sales taxes
  - Transfer of \$1.3 billion in local costs to the state budget eliminates much of the disparity among tax rates
  - County review boards must sign off ~~on property tax rates~~

# Orentlicher Plan (continued)

- Fairer balance between people and businesses
  - Corporate tax increase—\$300 million
- Fairer taxation of homeowners and renters
  - Replace \$1.2 billion in property taxes with a 1% increase in income tax, a tax based on ability to pay
  - Greater reliance on sales and income taxes—more predictable tax payments, less variation from township to township in tax bills
- Circuit-breaker for lower-income homeowners
- Property tax relief fund to bank new tax revenues during surplus years.

# Orentlicher Plan Illustrations

## ~~801 Taxing District (Arden, B-T, M-K)~~

AV	394,600	424,300	270,000
Income	68,000	150,000	80,000
2006 Tax	5,655	4,928	3,074
2007 Tax	9,438	11,470	5,954
O Plan	3,586	4,358	2,263
Inc. Tax	680	1,500	800
Sales Tax	252	350	268
<b>Total Cut</b>	<b>4,919</b>	<b>5,261</b>	<b><del>2,623</del></b>



# Equal Property Tax Rates

- Greater fiscal restraint
  - Reduce spending \$400 million by absorbing school transportation costs into state budget
  - Transfer another \$900 million in local school costs to the state budget, covered by 1% increase in sales taxes
- Fairer balance between people and businesses
  - Corporate tax increase—\$300 million
- Fairer taxation of homeowners and renters
  - Replace \$1.2 billion in property taxes with a 1% increase in income tax, a tax based on ability to pay

# Equal Property Tax Rates (cont.)

- Greater equity among property taxpayers
  - Create statewide property tax rate for child welfare costs and school costs that remain on property tax rolls (other than debt service)
- Property taxes for homeowners and renters
  - Carmel-Clay: 47% reduction
  - Washington Twp. Outside: 55.5% reduction
  - Washington Twp. Inside: 65% reduction

# Next Steps

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- Formulate legislative proposal based on public input
  - Future proposals
    - Restructuring local government
    - Improving method of assessment
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